



D.A. KIMBELL, PRESIDENT

April 24, 1997



Minerals Management Service
Royalty Management Program
Rules and Publications Staff
P. O. Box 5165, MS 3101
Denver, Colorado 80225-0165

Re: Regulations Regarding
the Valuation of Oil
Produced on Federal Lands

Gentlemen:

It is my understanding that you are studying a proposal to assess royalties owed on federal lands based on a value derived from the Nymex futures.

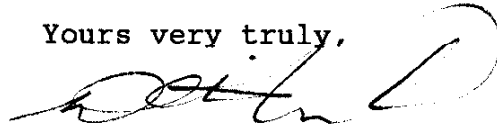
We operate some leases in New Mexico that are on federal lands, and such an assessment of royalties would be grossly unfair to us. We control no marketing or refining companies and do the best we know how to get the maximum sales price out of each barrel of oil produced. The government gets its percentage and consequently our interests are the same.

I can also tell you, as a result of sad experience in trying to hedge our income, that there can be a lot of difference between the near futures on the Nymex and the market value of our crude oil without even considering transportation costs of getting to market. This is because of basis risk and the presence in the commodity market of speculators who produce no oil.

Personally I doubt that there are very many instances of the government not receiving their full royalties on barrels sold, and I think where misunderstanding arises is the fact that the Nymex price is always higher than the field price due to the cost of transporting oil from the field to the four or five centers where oil is traded, such as St. James, Louisiana and Cushing, Oklahoma.

If, indeed, the Minerals Management Service feels that it is not getting market value for its crude, your solution is so much simpler than building another bureaucracy to monitor the daily fluctuations on the Nymex. Instead, all you have to do is insert in federal leases, which don't already contain a clause to this effect, that the government can take its royalties in kind. In such a case the government could hold auctions once a month for its royalty oil and then, by the use of four or five professional oil traders, move its oil to the successful bidder through the network of pipelines that criss-cross the oil fields.

Yours very truly,

A handwritten signature in dark ink, appearing to read 'D. A. Kimbell', with a large, stylized loop at the end.

D. A. Kimbell

DAK:mt

cc: Mr. Ben Dillon, I.P.A.A.